

PROJECT OVERSIGHT REPORT

Merchandising Business Systems Project (MBS)
Washington State Liquor Control Board (WSLCB)

Report as of Date:
February 2004

Project Director: Linda Bremer
Executive Sponsor: Pat Kohler

MOSTD Staff: Andy Marcelia

Severity/Risk Rating: High (high severity, high risk)

Oversight: Level 3 – ISB

Staff Recommendations: ISB staff recommends that the WSLCB continue to maintain high level of communications with all stakeholders relative to the MBS project and, as soon as complete information is available, communicate the estimated resources needed to replace the point-of-sale (POS) system in the state operated stores.

Status: Following termination of its contract with GERS Retail Systems (GERS) for default effective November 24, 2003, the WSLCB began exploring alternatives to address its POS and business information systems needs to upgrade and replace the fragile information systems that support the agency's retail business by prioritizing and focusing on the most critical business needs first. Due to their age and obsolescence, the agency's merchandising systems represent a major exposure to the agency's ability to perform its core mission. The agency is in the planning phase of alternative strategies to complete development and implementation of the MBS system.

Strategy Moving Forward: The WSLCB is continuing to move forward to replace the retail MBS system by prioritizing and focusing on the most critical business needs first. Pat Kohler, Administrative Director of the WSLCB, has identified the POS replacement as the highest priority for the agency and has set a goal to have the new POS equipment operational in all state run stores by October 2004. This priority was identified because of its impact on improving customer service and risk to state revenue due to system failures. The WSLCB is now exploring alternatives to accomplish this goal.

The WSLCB has several considerations when developing implementation strategies which are intended to:

- Mitigate the impact to customers
- Ensure the accurate distribution of over \$200 million/year in revenues to the state and local governments
- Protect and leverage MBS investments already made by the WSLCB in hardware, software, and training
- Stabilize the existing POS system before the next holiday season in 2004
- Position the WSLCB to realize incremental success and achieve critical project milestones by using a phased approach, and
- Position the WSLCB to use existing State enterprise systems whenever possible.

Currently three critical phases are under consideration.

Phase 1 – Stabilize the POS system.

This alternative will migrate the current POS software to the new hardware and install the new hardware in the 161 state stores. This would use the IBM SurePOS equipment procured under the GERS contract. The WSLCB will retain outside project management and added technical support to perform this project due to the WSLCB critical shortage of these resources. If Phase 2 can be accomplished by October 2004, Phase 1 will not go forward.

Phase 2 – Replace POS software

Phase 2 represents installation of new POS hardware and software. Under this alternative the WSLCB is studying moving forward with the POS subcontractor (the POS vendor under the GERS contract). This would leverage the investment already made with this vendor's software testing and training. The WSLCB is currently performing a detailed analysis of the requirements for integrating third-party POS software to the agency's existing merchandising systems and the state's accounting system. Development of interface analysis will be completed in March 2004. The WSLCB would use the third-party vendor to manage and complete the new POS system rollout to the 161 stores. If Phase 2 could be completed by October 2004, Phase 1 would not go forward.

Phase 3 – Plan and prepare for the replacement and upgrade of the corporate merchandising system

Due to significant changes in the MBS project as a result of the contractor default, the WSLCB is revisiting the underlying planning assumptions for the future phases of the MBS project. The WSLCB will begin re-planning the replacement and upgrade of critical components of the existing merchandising system (i.e., general ledger, sales audit, forecasting, suggested replenishments, tax distribution, etc) immediately following the analysis results of Phase 2. The WSLCB will, if required, submit decision packages for the 2005 – 2007 biennium to complete this effort. In order to meet the budgeting timeframes for the 2005 – 2007 biennium, it will be necessary to complete initial planning for Phase 3 by May 2004. To determine how best to complete Phase 3, the WSLCB will collaborate with partner agencies to explore the possibility of using existing State "enterprise" technology systems (i.e., DOP's software use contract with SAP, enhancing OFM's existing AFRS system to include merchandise accounting functionality, etc). If existing State support systems cannot be used or leveraged, the WSLCB will acquire a solution that best supports the agency's operational needs. It will also be necessary to review and refresh the agency IT Portfolio before the agency MBS planning efforts can be completed.

Next Steps: The immediate goal is stabilize the existing POS system before the holiday season sales volumes begin in 2004. To accomplish this goal the WSLCB will complete the planning and analysis of Phases 1 and 2 and then make appropriate decisions related to Phase 1 or Phase 2.

Budget/Cost: The WSLCB has not made any payments to GERS since the beginning of the current biennium due to disputes related to the progress of the project. The appropriation for this project is \$4,802,720. The GERS contract was for \$4 million. The WSLCB has \$1.8 million remaining of the original appropriation to invest in a new strategy. In addition, there is \$1.3 million proviso in operation funds for the new system creating a total of \$3.1 million. The new spending plan is based on current spending authority level.

Background Information

Description: The 2001 Legislature authorized the WSLCB to replace its POS software with a commercially available product capable of managing and supporting the agency's retail business. These business activities include procurement (timely sales and marketing data), distribution (electronic tracking of shipping and handling), wholesale and special orders, and POS in the 161 state liquor stores. The contract agent stores are not included in the scope of this project.

The WSLCB selected GERS as the vendor. GERS is a leading supplier of merchandising, point-of-sale, and e-business solutions for retailers with more than 400 systems installed in the United States, Canada, and Japan. GERS covers markets such as general merchandise, specialty soft

lines and hard lines, telco, consumer electronics, and home furnishings. Under the WSLCB contract, GERS will provide project management support for the project.

In January 2003, GERS informed the WSLCB that several required enhancements and interfaces would be delivered three months later than originally scheduled. It was later apparent, due to delays of required enhancements and interfaces, that the schedule revised in January would have to be modified. In May 2003, GERS delivered yet another schedule. A revised project plan was proposed. It included a delay that added significant time and milestones (scope) to the project, pushing the start of system implementation to May 2004 with completion in August 2004. GERS again proposed a modified schedule with development activities being completed by year-end and implementation earlier in 2004. The July 2003 testing of milestone 3B and the failure to pass acceptance criteria has made it unclear when the project will be completed. The WSLCB terminated its contract with GERS Retail Systems (GERS) for default effective November 24, 2003. The WSLCB stopped all work with GERS on the MBS project at that time. The WSLCB is now exploring alternatives to address its POS and business information systems needs.

Technology: The WSLCB installed the IBM AIX/Oracle platform as proposed by GERS. The WSLCB purchased industry standard IBM cash registers and related POS equipment for 161 state operated liquor stores. The WSLCB now has possession of the POS equipment and Triversity software.